



# Tackling water scarcity

## Update on water sector investing

Access to clean water is a global challenge. Trends such as population growth, aging infrastructure, and climate change are putting increasing pressure on water supply. The UN says water pollution, both in developed and developing countries, 'poses a growing risk to public health, food security, biodiversity and other ecosystem services'. The World Economic Forum ranks water crises as its number one global risk factor<sup>1</sup>.

New and innovative ways are emerging to tackle these urgent problems around water demand, waste and quality. With it, they bring opportunities to invest in a long-term structural growth theme with real world benefits.

### Drivers of the water sector



- ▶ **Emerging market growth:** Improved living standards in developing countries have resulted in higher per capita water consumption. With urbanisation comes the need for additional sanitation and waste water disposal, plus new infrastructure.



- ▶ **Rising global demand:** Water consumption has increased at a faster rate than population growth, and the problem is expected to accelerate. By 2030, the global demand for water is expected to rise by 40%<sup>2</sup>.



- ▶ **Inefficiency:** Developed economies are still, in many cases, extremely inefficient in the way they deal with water. In the UK, for example, 3,123m litres of water leak out from water pipes each day<sup>3</sup>. Montreal is thought to lose around 40% of its water because of poor infrastructure<sup>4</sup>.



- ▶ **Water quality:** The World Bank reports that 32% of World population does not have access to improved water sanitation, and 75% in rural areas. The UN says that severe pathogen pollution already affects around one-third of all river stretches in Latin America, Africa and Asia<sup>5</sup>. Developed countries are also concerned by quality as shown by high profiles crisis like in Flint, Michigan where water was contaminated with lead.



- ▶ **Policy change:** Measures and targets are being put in place to improve water quality. In China, for example, the recent five year plan included measures on air quality, water quality and soil. Water was a key part of the 2030 Agenda for Sustainable Development. There are also clear economic benefits from investing in water and sanitation: they include an overall estimated gain of 1.5% of global GDP and a US\$4.3 return for every dollar invested in water and sanitation services<sup>6</sup>.



- ▶ **Changing weather patterns:** Drought and extreme heats exacerbated by climate change make water supply uncertain and erratic with impact on health, land degradation and agriculture. A more efficient management of water resources and losses, better infrastructure and sanitation, alternative supply like desalination, help mitigate the impact by making water supply more resilient to changing weather patterns.

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## The investment opportunity

An urgent problem requires robust and sustainable solutions. Companies are a vital part of providing long-term solutions to the water crisis. As a result, the market value of water sector companies is expected to reach USD 1 trillion by 2020<sup>7</sup>. Water is currently the largest sector in the global infrastructure market.

The water sector is diverse, combining stable, utility type companies that supply and treat water, with higher growth infrastructure groups exposed to emerging markets. There are three main areas of water development:

1. **Water utilities: water suppliers and waste water post-treatment companies who operate facilities and networks to safeguard the global water economy.**

**Example:** Veolia Environnement (France) The Group designs and provides water, waste and energy management solutions that contribute to the sustainable development of communities and industries.

2. **Water infrastructure: suppliers of pipes, pumps, valves and meters, as well as various consulting firms. Investments required to upgrade aging infrastructure in the developed nations is expected to drive growth in the sector.**

**Example:** Pentair PLC (Britain) - services and solutions in water and other fluids, thermal management and equipment protection. The company has three operating segments: Water & Fluid Solutions, Valves & Controls, and Technical Solutions.

3. **Water treatment: High growth potential for players in wastewater and desalination as demand from developing countries is expected to rise. This includes suppliers of products and technology for the disinfection, filtration and desalination of water (pre-treatment).**

**Example:** Severn Trent PLC (Britain) – the group provides and treats water and waste water in the UK, and internationally, through two main businesses” – Severn Trent Water and Severn Trent Services.

## The current environment

Water continues to move up the legislative agenda and draw the attentions of investors and policy makers. Investors are seeking out areas of structural growth at a time when a heavy government debt burden is depressing global growth. Flows into water funds continue to increase at a time when net flows into conventional equity funds are stagnant. Water is becoming a larger and more important asset class.

### Access the water sector with the Lyxor World Water UCITS ETF

- ▶ The Lyxor World Water UCITS ETF offers a simple, liquid, transparent way to access the water sector.
- ▶ By mobilizing capital towards companies mainly involved in water utilities, infrastructure and treatment, the Lyxor World Water UCITS ETF can be seen as consistent with SDG 6 of the UN's Sustainable Development Goals agenda (“Ensure availability and sustainable management of water and sanitation for all”).
- ▶ The Fund is based on the [World Water Index](#). The index is drawn from the most liquid stocks of the S&P Global Total Stock Market Index. It comprises 20 companies which have the largest share of their revenues in the three water industries above – utilities, infrastructure or treatment.
- ▶ It selects the largest five stocks from each activity, plus an additional five stocks based on their rank in percentage share of water revenues to bring the total number of components to 20.
- ▶ The index has been live since [October 2007](#).
- ▶ Assets under management currently account for [579 million EUR](#) (as at 21/07/2017).

Sources:

1. <http://reports.weforum.org/global-risks-2015/#frame/20ad6>
2. Water Resources Group
3. <http://www.discoverwater.co.uk/leaking-pipes>
4. <https://www.theguardian.com/sustainable-business/2015/mar/02/water-loss-eight-things-you-need-to-know-about-an-invisible-global-problem>
5. <http://www.unep.org/ecosystems/freshwater/resources/publications/water-quality-snapshot>
6. [http://www.who.int/water\\_sanitation\\_health/monitoring/en/](http://www.who.int/water_sanitation_health/monitoring/en/)
7. Water Resources Group

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It is important for potential investors to evaluate the risks described below and in the fund prospectus which can be found on [www.lyxoretf.com](http://www.lyxoretf.com)

**CAPITAL AT RISK:** ETFs are tracking instruments: Their risk profile is similar to a direct investment in the Underlying Index. Investors' capital is fully at risk and investors may not get back the amount originally invested.

**REPLICATION RISK:** The fund objectives might not be reached due to unexpected events on the underlying markets which will impact the index calculation and the efficient fund replication.

**COUNTERPARTY RISK:** Investors are exposed to risks resulting from the use of an OTC Swap with Societe Generale. In-line with UCITS guidelines, the exposure to Societe Generale cannot exceed 10% of the total fund assets. Physically replicated ETFs may have counterparty risk resulting from the use of a Securities Lending Programme.

**UNDERLYING RISK:** The Underlying Index of a Lyxor ETF may be complex and volatile. When investing in commodities, the Underlying Index is calculated with reference to commodity futures contracts exposing the investor to a liquidity risk linked to costs such as cost of carry and transportation. ETFs exposed to Emerging Markets carry a greater risk of potential loss than investment in Developed Markets as they are exposed to a wide range of unpredictable Emerging Market risks.

**CURRENCY RISK:** ETFs may be exposed to currency risk if the ETF is denominated in a currency different to that of the Underlying Index they are tracking. This means that exchange rate fluctuations could have a negative or positive effect on returns.

**LIQUIDITY RISK:** Liquidity is provided by registered market-makers on the respective stock exchange where the ETF is listed, including Societe Generale. On exchange liquidity may be limited as a result of a suspension in the underlying market represented by the Underlying Index tracked by the ETF; a failure in the systems of one of the relevant stock exchanges, Societe Generale or other market-maker systems; or an abnormal trading situation or event.

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